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HOUSING CHARGES AND INCOME MIX IN NON-PROFIT HOUSING CO-OPERATIVES:

THE "LOW END OF MARKET" DEBATE

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1. Introduction: The Co-op Housing Sector

Canada's non-profit co-operative housing program is now about ten years old. During this period the co-op housing sector has grown considerably, becoming an increasingly significant component of Canada's stock of non-profit housing. The co-op sector today provides some 18,000 housing units for families and individuals in [illegible] non-profit continuing co-operatives. In 1982 an additional 5,000 to 6,000 co-op units will be produced.

Through the years the objectives of the federal co-operative housing assistance program have remained the same: to assist in the provision of modest, affordable housing for people with low and moderate incomes in self-managed, socially mixed non-profit continuing co-operatives. The income mix aspect of the program together with the self-managed nature of non-profit co-operatives are the two most significant departures from the pre-1970's federal approach to assisted housing. As Canada Mortgage and Housing Corporation's 1978 annual report states:

> Recent policy changes have shifted the emphasis away from the public housing programs, which have acquired some negative social implications, and have strengthened those programs such as non-profit and co-operative housing which are privately financed and which help people to help themselves.

The report maintains that the success of the non-profit program has made possible

> . . .the phasing out of the old public housing program which tended to isolate low-income people, in favour of the privately financed non-profit and co-operative programs which allow a more acceptable blending of population groups and are more responsive to the plans and priorities of local governments.

The proposal for a federal co-op housing assistance program originated with Canada's co-operative sector. In March 1968 the Co-operative Union of Canada, the Canadian Labour Congress and the Canadian Unions of Students established the Co-operative Housing Foundation (CHF) with a mandate to "promote Canada-wide initiative, sponsorship and co-ordination of various types of co-operative housing". Except for the pioneering development of building co-ops in Nova Scotia and Quebec and the completion of the Willow Park continuing housing co-op in Winnipeg, co-operative housing had made little impact on the Canadian housing scene prior to 1968.

One of CHF's first actions was to present a submission to the Hellyer Task Force on Housing in December, 1968. The submission made many recommendations on how federal housing policy could help facilitate the production of non-profit, continuing housing co-operatives. When the federal government announced its $200 million "innovative fund" for social housing in 1969, CHF negotiated with CMHC to have eleven housing co-ops sponsored by this fund (about 1,000 units). The innovative fund provided CMHC mortgages at about two percent below market interest rates.

From these modest beginnings, the current federal co-op housing assistance program began to emerge. The unsatisfactory experience with the public housing program of the 1960's led federal housing officials to the early 1970's to seek alternative means of providing assisted housing. At this time, during the urban real estate boom of the early 1970's, it was becoming clear that the gap between economic rents for new housing and the amount low and moderate income Canadians could afford to pay was increasing dramatically. Unfortunately, post-war housing programs had focused solely on the <u>provision</u> of housing. The

quantity and the quality of the housing stock were the major housing problems following the depression and the second World War. By the early 1970's, however, affordability had become an increasingly serious aspect of the housing problem. A growing percentage of Canadians could no longer afford economic rents in the private market.

Major amendments to the National Housing Act in 1973 were a partial recognition of these changes in the nature of the housing problem. Among other things, the amendments established a non-profit social housing program. The affordability problem would be addressed by establishing a stock of non-profit housing. By this means public assistance to housing would remain within the public domain and not create equity investments by providing subsidies to private developers. Housing would function solely as "shelter" and the speculative investment aspect would be removed. The social problems of the old public housing program would be addressed by creating socially mixed housing developments. These could be integrated with existing neighbourhoods and provide a more humane approach to assisted housing.

The conditions leading to the creation of the non-profit social housing program also led government housing officials to see the potentially beneficial role non-profit continuing co-opratives could play. The first eleven co-ops provided an example of how groups of people could organize to secure housing for themselves on a non-profit, co-operative basis. Co-ops were increasingly recognized as a responsible and efficient form of social housing — neither private nor public nor charitable — but owned and managed collectively on a democratic, non-profit basis by the people who live in them. An incentive among

residents to keep costs down is, therefore, created and the need for government to be involved in the costly management of housing projects is eliminated.

A further innovation developed by the early co-ops was a method by which families with very low incomes could be housed. This involved the provision of rent supplements on an income tested basis. The rent supplements would equal the difference between 25% of the household's gross income and the actual housing charge in the co-op. This additional level of assistance permitted co-ops to accomodate very low income households. This was less expensive than the government building public housing projects. The provision of these rent supplements on an income tested basis ensured that only those in need received this additional level of assistance.

As a result of the success of these first experiments, several provinces established rent supplement programs. In 1978 the federal government also created a pool of rent supplement funds as part of the total assistance package to co-ops. The federal rent supplement assistance is called the Income Tested Subsidy (ITS) portion of the total federal assistance provided to a co-op. The rest of the federal assistance consists of the Interest Reduction Grant, which is applied equally to all units in order to reduce the mortgage payments, bringing housing charges down to levels affordable to moderate income households.

In addition to creating the Income Tested Subsidy pool, a method by which the size of this pool of funds is automatically enlarged was also established. Starting in the fourth year, the mortgage assistance to a new co-op (the Interest Reduction Grant) is reduced by 5% annually. Members of the co-op begin paying more of the principal and interest on the mortgage. These extra funds are then

transferred to the Income Tested Subsidy pool for use as additional rent supplements. This federal formula represents a sophisticated innovation to the rent supplement program. It provides a mechanism by which co-op members able to pay higher housing charges do so in order to better enable the co-op to assist low income households.

During the period when the 1973 amendments to the National Housing Act were being prepared, submissions by the co-op sector wre favourably received by the Minister of State for Urban Affairs. As a result, the co-op housing assistance program was established as part of the new non-profit approach the government was then developing. The provisions of this co-op assistance program, in effect from 1973 to 1978, included the following:

- a start-up grant of up to $10,000;
- reduction of the mortgage interest rate to 8%;
- a 50 year mortgage amortization period;
- a 10% capital grant to help reduce initial housing charges; and
- provincial rent supplements, in some provinces, on an income tested basis for low income co-op members.

Between 1973 and 1978 about 8,000 co-op units were financed under this program. Initial housing charges in a new co-op were established on the basis of the economic rent of the project. The 8% mortgage, the long amortization period and the 10% capital grant were enough to reduce economic rents to levels affordable to lower income households. In provinces where a rent supplement program existed, co-ops could house an additional percentage of low income households.

However, the commitment of most provinces to the rent supplement program was inadequate, and inflation and land costs increased dramatically through the mid-1970's. Thus, co-ops found it increasingly difficult to house a substantial percentage of very low income households -- one of the original objectives of the co-op program. In addition, economic conditions in the real estate and housing markets meant that the 1973 package of federal assistance to co-ops was becoming increasingly inadequate. It was becoming difficult to bring new projects on stream at economic rents affordable to low and moderate income households.

As a result, the co-op housing provisions of the NHA were amended in 1978 after six months of negotiations between federal housing officials and the co-op housing sector. A much more sophisticated and streamlined funding mechanism was devised, making the program more efficient to administer and more sensitive to changes in the real estate market. Together with these administrative changes, the federal government also increased its level of support for the sector, increasing the number of co-op units it would finance annually. As CMHC's 1979 annual report points out, these 1978 amendments reflect the federal government's "increased emphasis on the provision of subsidized housing by means of non-profit and co-operative housing". Since the 1978 program changes, an additional 15,000 co-op units have been financed, and 6,000 units are currently under construction.

The new co-op housing program consists of the following basic features:

- recoverable start-up funds of up to $75,000;
- mortgage funds from private market sources rather than direct CMHC mortgages;
- a maximum 35 year mortgage amortization period;
- a consolidation of all forms of federal assistance into one assistance package known as the Maximum Federal Assistance (MFA);
- the MFA is determined by calculating the total eligible project costs amortized at market interest rates minus the same project costs amortized at two percent;
- the MFA consists of two different types of assistance, an Interest Reduction Grant (IRG) and an Income Tested Subsidy (ITS);
- in the fourth year of operation, the IRG portion of the MFA is reduced annually by 5% and these funds are transferred to the ITS pool for rent supplements; and
- initial housing charges are established at "low end of market" levels.

While this appears at first glance to be quite complex, it is a relatively straight forward formula which, in the past three years, appears to have worked well. The January, 1979 press release and background paper announcing the new program are reproduced in Appendix A. This material provides a concise summary of the basic features and the logic behind the current program.

2. Objectives of This Paper

Over the ten year life of the co-op housing assistance program, therefore, the administrative provisions have been substantially amended, though the objectives have remained virtually the same. The co-op sector and the federal government have negotiated these changes to strengthen the social housing objectives of the co-op program.

There is, however, one key element of the new program which is currently the subject of a great deal of debate: the method by which housing charges (rents) are determined in the initial year of a new co-op. Under provisions of the new program, the package of federal assistance is such that initial housing charges for each new co-op must be determined according to a set of specific CMHC guidelines. The method which emerged from the 1978 negotiations is one in which CMHC and the sponsor of the co-op determine a "low end of market" housing charge based on the market rents of comparable, non-rent controlled units in the vicinity of the new co-op.

Even at the best of times, when the rental market is relatively stable and many new units are being built, any process of determining rents by other than economic criteria is very difficult. There does not appear to be an optimum approach capable of being administratively simple and, at the same time, economically efficient and socially equitable. Rather than relying on easily identifiable, quantitative measures, the determination of non-market rents relies on numerous judgemental assessments. Current economic conditions in Canada's housing market and recent criticisms of the social housing program by private real estate lobbies have made the low end of market method of setting housing charges a controversial subject.

This paper reviews the nature of the current "low end of market" controversy and makes recommendations regarding the method by which initial housing charges should be established. In order to put the issue into perspective, Section 3 explains how the current formula evolved and how it is supposed to work. Section 4 then outlines why the low end of market formula has recently become so controversial. Until mid-1981, there had been few problems with the

formula. But economic conditions and political factors have changed sufficiently to cause CMHC to begin establishing initial housing charges at much higher levels than previously. Section 5 provides data on recently established housing charges, using Toronto [and maybe Vancouver and Ottawa], as case studies. Compared to housing charges established about a year ago, CHMC is currently establishing housing charges at levels approximately 20% higher. This has a direct impact on the income mix of households a co-op can accommodate in its non-rent supplemented units. As initial housing charges increase, co-ops must attract households with equivalently higher incomes. The short and long term impact of this practice on the income mix of a co-op is analysed in Section 5. Finally, Section 6 contains the conclusions and recommendations.

Throughout the paper an attempt has been made to explain how the relevant aspects of the co-op program operate. Some of the tables may be difficult to follow unless one is fully familiar with the details of the program. However, an attempt has been made to make the text itself self-explanatory.

3. Origins of the "Low End of Market" Approach to Setting Housing Charges

When the co-op program was revised in 1978, the nature of the new funding mechanism meant that the initial housing charges would have to be set for each co-op. The question was: how? What method would be most efficient and equitable? As the background paper in Appendix A notes, the "low end of market" was the method selected:

> A distinctive mechanism will be used to provide the federal interest write down assistance. At the outset the project rents will be the lower end of market rents for comparable accommodation. Federal assistance will bridge the gas between project rents and economic rents.

The level at which the initial housing charge is set is extremely important because of the impact is has on who can afford to live in the co-op. It has a direct impact on the immediate and long term income mix. It is not, however, related to the total amount of federal assistance provided to a project. The Maximum Federal Assistance (MFA) is determined by a formula relating to the total capital cost of the co-op and the prevailing mortgage interest rate. Thus, setting initial housing charges higher does not mean that the co-op will cost the government fewer dollars. Setting housing charges at a higher or lower level does, however, have an impact on the amount of federal rent supplement funds available to a co-op.

3.1 Maximum Federal Assistance for Co-op Projects

The cost of the co-op program, as with all housing, has indeed been increasing over recent years. This is largely due to high interest rates. In co-ops, the total cost to the federal government is not related to the initial housing charges. The Maximum Federal Assistance is arrived at by calculating the total eligible project cost amortized at market interest rates minus the total project costs amortized at two percent. This formula was established so as to avoid having to revise the assistance package every time interest rates, land costs, construction costs, inflation, and so on, changed. The total capital cost of a project is given an upper limit by CMHC through the use of Maximum Unit Price (MUP) regulations. This helps ensure that "modest and appropriate" housing is

build. Because MUPs are adjusted periodically to take into account inflation, this approach helps ensure that funding arrangements remain applicable in spite of inflation.

The federal assistance for a co-op is relatively easy to calculate. The total capital cost for a project approvd by CMHC is calculated at current mortgage interest rates and at a two percent interest rate. By subtracting the annual cost of the two percent interest rate from the market interest, the federal assistance for the project is determined. For example, the federal assistance for a co-op costing $5 million is calculated below at three different interest rates.

TABLE 1

Annual Maximum Federal Assistance for a $5 Million Co-op Project

Prevailing Interest Rate	Annual Principal Interest		2% Interest Rate		M.F.A.
12%	$595,560	-	$198,600	=	$396,960
16%	778,080	-	198,600	=	579,480
20%	961,920	-	198,600	=	763,320

When this formula was worked out in 1978 interest rates were in the 10 to 12% range. The 20% interest rate makes the $5 million project $366,360 (or 48%) more expensive per year than the 12% interest rate. None of this increased cost results from anything related to the co-op, nor do co-op members gain any additional benefit from a project financed at 20% rather than 12%. High

interest rates simply increase the gap between economic rents and affordable market rents. High interest rates impact all forms of housing in the same manner.

3.2 The Interest Reduction Grant and the Income Tested Subsidy

Another major element of the program which is widely misunderstood relates to the way the MFA is applied. In the popular press this is often erroneously referred to as a "two percent mortgage". It would indeed be a two percent mortgage if all the federal funds were used to provide mortgage assistance. However, this is not the case.

The Maximum Federal Assistance consists of two forms of assistance: an Interest Reduction Grant (IRG) which reduces the interest rate for all units in a co-op across the board, and an Income Tested Subsidy (ITS) which is not related in any way to the mortgage. The ITS is a pool of funds distributed according to federal guidelines to low income households on the basis of need. It is a federal rent supplement program. This is to enable co-ops to accommodate low income households who would otherwise be paying much more than 25% of their gross incomes even at a co-op's "low end of market" housing charges.

In the initial three years of a co-op, however, a majority of the federal assistance is applied to the mortgage in the form of the Interest Reduction Grant. This is in order to lower the economic rents of a project to levels affordable to moderate income households. The remainder of the assistance forms the Income Tested Subsidy pool.

A unique feature of the current co-op assistance program is that, after three years, the mortgage assistance (the IRG) begins to be withdrawn at an annual rate of 5%. This means that co-op households begin paying more of the economic rent of the project by increasing the percentage of the principle and interest they pay towards the mortgage.

Thus, in the fourth year and every year thereafter, the federally assisted portion of the mortgage decreases by 5% annually. This is why the claim that there is a "two percent mortgage" is completely erroneous. It is not two percent even in the first three years of a co-op because all of the federal assistance is not applied to the mortgage; a small portion goes into the Income Tested Subsidy pool for rent supplements. In addition, the mortgage assistance is further reduced each year thereafter.

Table 2 provides an example of the way in which the Interest Reduction Grant is withdrawn. If we assume that $250 of a co-op unit's housing charge goes towards the principal and interest (P & I) on the mortgage, the portion of the P & I paid by the co-op member increases 5% annually after the third year. This is separate from any normal increases in housing charges due to general operating costs, such as maintenance, management, taxes, utilities, and so on.

TABLE 2

Example of the 5% Annual Withdrawal of the Interest Reduction Grant

Assume: Actual P & I = $600.	Amount paid by Co-op Member	Federal I.R.G.
Principal & Interest, years 1 to 3	250.00	350.00
Year 4 P & I, $250.00 x 1.05	262.50	337.50
Year 5 P & I, $262.50 x 1.05	275.63	324.37
Year 6 P & I, $275.63 x 1.05	289.41	310.59
Year 7 P & I, $289.41 x 1.05	303.88	296.12
Year 10 P & I, $335.02 x 1.05	351.78	248.22
Year 15 P & I, $427.59 x 1.05	448.96	151.04

What happens, then, to the pool of funds created when co-op members begin paying more of the P & I? These funds are put into the co-op's Income Tested Subsidy pool, increasing the co-op's ability to assist low income members on an income tested basis. The aim is to ensure that a co-op can provide subsidies to maintain and even increase its mix of low income households in spite of rising housing charges. Funds in the Income Tested Subsidy pool which are not used by a co-op are eventually returned to the federal government. There is, therefore, an incentive to make use of the funds.

At least part of the current debate over the "low end of market" mechanism for establishing initial housing charges relates to the way in which the federal assistance (the MFA) is divided.

Where the initial housing charges cover a greater percentage of the mortgage and operating costs, there are additional funds left over for the income tested rent supplements. Therefore, by increasing the initial housing charges, one enlarges the Income Tested Subsidy pool, thereby enabling a co-op to better assist low income households. In doing so, another problem is created. As the initial housing charges are set at higher levels, more of the moderate income households are unable to afford the non-rent supplemented units.

Taken to extreme, this practice could result in a co-op composed of a mix of some very low income households receiving large subsidies from the Income Tested Subsidy pool and households with well above average incomes, leaving out the households in between. A housing charge of $600 for example, requires a minimum income of $28,800 (assuming 25% of income is spent on shelter). Any increase in the housing charge increases the required income for a non-rent supplemented unit by a factor of four. A $650 housing charge is only a $50.00 per month increase but requires an annual income of $31,200. On the other hand, the ITS pool is only increased by a factor of one, on a dollar for dollar basis. It is thus counter-productive to set the initial housing charges too to high a level in order to increase the proportion of the ITS. It is a disproportionate process which endangers the social mix of the co-op and results in the housing of people with a higher income range.

In summary, the significance of whether the initial housing charges are set at higher or lower levels, relates to the proportion of the federal assistance which goes towards the Interest Reduction Grant and the Income Tested Subsidy, not to the total federal assistance provided to a co-op. A higher initial housing charge produces a greater subsidy pool for rent-geared-to-income supplements at

the cost of requiring the non-rent supplemented households to be from a higher income range (in order to be able to pay the higher housing charges). The reverse, is also true. Lower initial housing charges produce a lower rent supplement subsidy pool. In this case, the non-rent supplemented units could house people from a slightly lower income range.

3.3 Options for Determining Initial Housing Charges

During the 1978 negotiations, when the current co-op program was being designed, three options were considered as mechanisms for establishing initial housing charges: one based on the median income of a community; one based on the low end of market; and one based on the historic low end of market. It is useful to review each of these now that the method selected, the low end of market, is being questioned.

A) Median Income

The mechanism believed to be the best at the time proved, after some analysis, to be better in theory than in practice. Initial housing charges would be established at a level equal to 25% of the median income of a community. The logic behind this approach was that a median income household should be able to afford co-op housing charges without receiving a rent supplement subsidy. If the median income for a family of four was $20,000, for example, the monthly housing charge for a three bedroom unit would be established at $416, i.e., 25% of gross annual income.

The serious administrative problem with this approach remains that of determining the median incomes of different size households in all communities across the country. The only reliable source of data is the census. After the year of the census, however, all median income data is based on estimates. To establish housing charges according to median incomes the data would have to be sensitive to annual changes and to changes in different geographic parts of a region or city. The median income approach, therefore, was dismissed as administratively too complicated. Such an approach would be based on potentially unreliable estimates.

B) Low End of Market

As already noted, an approach based on the prevailing low end of market in the neighbourhood of a new co-op was the mechanism selected. It was administratively more simple than pegging initial housing charges to income levels. Rents of equivalent units in an area would be surveyed and the low end of this range would be selected as the initial housing charge. If market rents range from \$350 to \$400, for example, the low end of market of \$350 would be selected.

The "low end" rather than "market" or "high end of market" was selected because it was agreed that the non-rent supplemented units in a co-op should have housing charges equivalent to moderately priced housing in the rental marketplace. This approach was also viewed as more socially desirable than the median income approach because of the fact that most middle and upper income households spend less than 25% of their income on shelter. Why should the government impose a burden on median income households in co-ops which others

in society were not expected to bear? In addition, if initial housing charges were higher than those available in the market, what economic incentive would there be for median income households to move into a co-op and then participate in its management? The income mix of the social housing program would, therefore, be threatened.

C) Historic Low End of Market

A third option was discussed because of potential problems with the low end of market approach. What would happen if the real estate market in a booming community pushed low end of market rents above the median income of households in that community? Pegging housing charges to such a "high" low end of market would force a co-op to house a population with a higher income mix, leaving out even median income households. That is, in selecting new members for non-rent supplemented units, a co-op must be sure that the households in such units have a sufficient income to pay the housing charge. Higher initial housing charges necessitate housing a population with a higher income range.

A variation of this problem is the case in which a neighbourhood has become very fashionable and market rents are artifically pushed to very high levels. A new co-op in that area would be expected to peg its housing charges to a much higher low end of market. Another related problem would be the case where no equivalent rental units exist in the surrounding community. For example, a co-op located in a suburban area where all the housing stock consists of privately owned units.

These problems were foreseen during the negotiations, and the "historic low end of market" was proposed as a blended method. It combined a common sense estimate of what the market would be under less volatile market conditions with a consideration of the rent levels median income households could afford to pay. It was proposed as a better method to represent the relationship between incomes and rents prevailing in the rest of the country. Failure to take into account special conditions might mean the program would not work in certain parts of the country.

The co-op sector recommended this blended approach for cases where automatic application of the low end of market caused problems. In an October, 1978 submission to the Minister of State for Urban Affairs, the Co-operative Housing Foundation of Canada noted that:

> We are in agreement that tying the initial housing charges to the "low end of market" is acceptable.
>
> However, in a few areas of the country the low end of market results in housing charges which the majority of households cannot afford. If co-operatives in these situations were to use low end of market, the majority of residents would have to be on rent-geared-to-income and this would not result in viable housing co-operatives with an economic incentive to keep costs down. We have thus proposed an alternative mechanism for those areas using what is termed the "historical low end of market" to set the initial housing charges.

Attached to the submission was an example of how this method would be applied. The example is reproduced here as Table 3. At that time 1978, the Calgary and Edmonton rental markets were increasing at a rate beyond levels affordable to median income households. In these cases, the "historical" low end of market was proposed whereas the actual low end of market proved workable in the rest of the country.

CMHC did not accept this recommendation. Rather, the low end of market was adopted and indeed functioned fairly well until recently. The following is an excerpt from the current CMHC Appraisal Guide outlining the way in which housing charges in co-ops are currently established.

TABLE 3

1978 CHF Proposal Comparing "HISTORICAL LOW-END OF MARKET" to

"ACTUAL LOW-END OF MARKET" for 11 Major Cities

(for typical 3 bedroom accommodation)

City	Median Income	"Historical low-end of Market"	"Actual low-end of Market"	CHF Proposal Uses:
Halifax	$20,155,84	$ 420	$ 325	actual low-end
Quebec City	18,509.66	386	220	actual low-end
Montreal	18,672.97	389	230	actual low-end
Ottawa	23,710.81	494	325	actual low-end
Toronto	23,178.18	483	350	actual low-end
Thunder Bay	19,520.38	407	380	actual low-end
Winnipeg	16,601.86	346	360	actual low-end
Regina	18,359,92	382	325	actual low-end
Calgary	20,368.68	424	480	historical
Edmonton	20,546.40	428	500	historical
Vancouver	19,921.89	415	425	Either one

Note: The median income statistics were provided by C.M.H.C.

"Historical low-end of market" is calculated by using 25% of the median income on a monthly basis.

"Actual low-end of market" figures are averages. The actual figures will vary based on the actual type of accommodation and on location within the metropolitan areas.

Rents for new construction projects will be estimated through comparison with projected rentals of other new projects. Subsidized projects should not be used a comparables. A.R.P. and G.P.M. projects are not considered to be subsidized housing since they rent at market levels. The market area used for determining comparables should be sufficiently broad to include a realistic sample but should not include locations which have significantly different market rents for similar projects.

The lower end of market rent is to be determined in accordance with the policy contained in the program manuals as follows:

1) Identify market rents of properties most comparable to the subject project.

2) Identify differences between the comparable properties and the subject with respect to physical characteristics, location, etc.

3) Adjust the market rents of the comparables to reflect the differences.

4) The adjusted market rents will fall into a narrower range (range due to imperfections in the market).

5) The lower end of market rent for the project will be set at the lower end of the adjusted range.

The appraiser is responsible for determining the lower end of market rent for each proposal. Care should be taken to ensure that the lower end of market rent is not underestimated as this will provide subsidies to higher income tenants.

Where no comparable projects can be identified, the lower end of market must be estimated by the appraiser. The following suggested methods can be used.

- adjustment of market rents from other market areas.

- identification of the relationship between economic rents and market rents in other markets and application to economic rentals for the project.

- estimate market rents based on the costs of other housing alternatives in the same location.

The appraiser should be prepared to discuss the details of his market analysis with the proponent if this is required.

The basic intent of the low end of market approach is to set housing charges at a level high enough so as to avoid providing to good a deal to those

who could afford to pay more and yet keep them low enough so as to be affordable to median income households. As the regulations state: "Care should be taken to ensure that the lower end of market rent is not underestimated as this will provide subsidies to higher income tenants".

The 5% annual withdrawal of the mortgage assistance (the Interest Reduction Grant) was added to the co-op assistance program during the 1978 negotiations in order to directly address the concern about providing federal mortgage assistance to households whose incomes will rise above median levels. A small number of these households are required in order to achieve the income mix objectives of the program. Yet, on grounds of social equity, it was agreed that there should be a mechanism by which the proportion these households contributed towards the mortgage would increase over the years, in addition to the normal increases in operating costs.

The 5% annual mortgage assistance withdrawal, therefore, was made part of the funding formula so that those able to pay a higher housing charge begin to do so. These extra funds are then transferred into the co-op's Income Tested Subsidy pool for use as rent supplements.

This mortgage interest withdrawal is one of the more innovative features of the new co-op program, and, because the program is only three years old, it is often overlooked. It permits housing charges to rise to more appropriate levels for households with above median incomes while it allows co-op's, over time, to increase their ability to provide rent supplements to low income households.

4. Current Problems with the Low End of Market Formula

Even though the co-op sector expressed concerns about the general applicability of the low end of market mechanism for establishing a co-op's initial housing charges, this method functioned reasonably well during the first two years of the new program (1979 and 1980). During mid-1981, however, CMHC changed the way in whch it implemented the low end of market. The regulations themselves were not changed. The local CMHC offices were simply instructed to begin establishing higher "low end of market" housing charges.

4.1 Changes in Economic and Political Conditions

What has brought about this change? Discussions with the various parties involved reveal five key factors -- factors which have changed rather dramatically since the new program was introduced. Three are economic and two political. As data in Section 5 will point out, however, all of these relate more to changes in the way the program is perceived rather than to changes in the actual operation or implementation of the program.

The three economic factors influencing the general perception of the efficiency and equity of the program are the following:

A) Mortgage Interest Rate Increases

The dramatic increase in interest rates over the past 18 months has made the co-op program more expensive. As explained earlier, the amount of federal funds required to bring economic rents down to market rents has increased as

dramatically as the interest rates have increased. (Table 1 provided an example of the impact of higher mortgage interest rates.) The same number of co-op units are costing much more in 1981 and 1982 than they did in 1979 and 1980. Even though the low end of market housing charges bear no relationship to the total federal assistance provided to a co-op, the increasing expense brought about by higher interest rates is causing aspects of the program to be more closely examined. This is certainly a trend which should be welcomed. Improvements should be made wherever possible.

The problem, however, is that it is clear some of those involved in the current low end of market debate believe that the level of housing charges in new co-ops is connected with the increased cost of the program. The argument sometimes heard is that by increasing the initial housing charges one reduces the amount of the federal assistance. The funding formula is such, however, that the two are not connected. Nothing constructive comes from a debate on these terms.

B) Increases in the Cost of Urban Land

In addition to mortgage interest rates, the capital costs of co-ops have increased. The major increase has been the cost of land. The increased costs due to higher mortgage rates plus the increases in Maximum Unit Prices necessary to pay for urban sites have further pushed up costs of co-op housing projects. Again, however, this has nothing to do with the program itself. It affects all housing. Yet it contributes to the perception that there is something wrong with the program.

C) Changes in the Housing Market

The factor which has caused problems with the implementation of the low end of market formula is the current state of the housing market throughout Canada. There really is no single "market". There are many different markets, and few of them function as economists would like them to. Instead of one "imperfect" rental market, we now have many: rent controlled; non-rent controlled; luxury rentals; public, private and co-op non-profits; and private assisted rentals (such as A.R.P. buildings).

In addition, very few private rentals are being built. Under these conditions, how does one implement the low end of market formula? In Ontario, where close to 90% of the rental units are rent controlled, how does one find comparable non-rent controlled units in order to establish a "low end of market" housing charge? A formula tied to the "the market", when the market is in the condition it is today, is extremely difficult to implement. Most parts of the country have now reached the point at which the co-op sector's proposed "historic low end of market" formula would apply.

Under current "market" conditions, the low end of market formula has become very difficult to administer. It was, at best, an approach based largely on subjective judgment calls. But it still had a fairly objective component —the survey of equivalent market rentals in the neighbourhood of a new co-op. In the past 18 months, this objective element has weakened. The number of judgment calls has increased. Because the private sector is building so few rental units, there are fewer comparables. Where rent controls are in place, there are even fewer comparables, since CMHC policy prohibits the use of rent controlled untis

for comparison purposes. And in parts of large cities, mainly Vancouver, Edmonton, Calgary, Toronto and Ottawa, even low end of market rents in some districts are well beyond the levels affordable to median income households.

Obviously, deteriorating economic conditions since 1978 have caused problems in administering the social housing program. Also, criticisms of the program are influencing the public's perceptions of the program's efficiency and equity. These attacks appear to be contributing to CMHC's decision to begin setting higher low end of market housing charges.

D) Criticisms by the Real Estate Lobby

The private sector has never concealed its lack of enthusiasm for a program which does more than just supply housing to the extremely poor, via public housing projects. As economic conditions affecting the private housing market worsen, the real estate industry has increased its public attacks on the social housing program.

The basic problem with the program, according to the real estate lobby, is that it does not stimulate or assist private home ownership. The program, in fact, does the opposite. It provides an alternative to private home ownership. A recent Toronto Real Estate Board advertisement, published when mortgage interest renewal rates were at their peak, is reproduced in Figure 1. As the last sentence in the ad makes clear, the only proper role in the housing sector for government, beyond assisting the very poor, is to assist the real estate industry by stimulating private home ownership: "Ottawa should be promoting home ownership". In making this point, the ad inaccurately describes the operation of

the program (i.e. the "2% mortgage"). When home owners are being hit with 20% mortgage renewals, however, the Real Estate Board's inaccurate claim can be damaging.

What the alternative should be is not made clear. In the late 1960's and early 1970's, the real estate industry lobbied for public subsidies to assist people in buying homes. The Assisted Home Ownership Program (AHOP) resulted. Several years later the AHOP program was quite rightly abandoned by the federal government. Many people were enticed into financial commitments beyond their means. Where the program did successfully assist households, it assisted in creating a private equity **investment** for middle income households at public expense.

E) Criticisms by the Development Industry Lobby

While the real estate industry sells private housing, the development industry builds it. And the development industry tends to complain most loudly about the social housing program when the private sector is in a slump. The complaint, however, is no longer based on laissez faire economic principles — that the government should not be involved in the housing market. Rather, it is based on the view that government programs must not compete with the private sector must be made available to private sector developers.

and that subsidy programs

Public housing, therefore, is acceptable because it houses people who cannot afford private sector housing. The social housing program, however, houses a mix of people and helps put non-profit groups, co-operatives and municipal housing companies in business as developers, owners and managers of housing, replacing the role of the private developer.

One example of this ongoing complaint is the release of an Urban Development Institute study on the level of subsidies provided to the four co-ops and one municipal non-profit rental in the first phase of the St. Lawrence neighbourhood. The UDI made clear during a press conference what they were after. The Toronto Star account (June 27, 1980) reported that:

> They weren't complaining about the level of the subsidies, spokesmen for the association of private developers explained at a press conference yesterday -- they just want a piece of the action.
>
> "Here you have a bunch of amateurs building housing at taxpayers' expense and we have to go and build in the States," said Joe Lebovic, UDI president.
>
> Mal Wardman, past president of UDI, said the group wouldn't object to all the subsidies if they were available to private developers.
>
> "We're not saying we're against subsidies or everyone would be paying $636 a month," he said. "But they should make these cut-down mortgages available to private developers."
>
> Lebovic said it's tough for a conservative private developer like himself to find a political party he can trust.
>
> "We have socialistic tendencies not only in the New Democratic Party and the Liberals but even in the Conservative Party," he said.

The UDI has every right to present its views. In doing so, however, the UDI released data and made changes which proved to be grossly inaccurate. Media events such as these do not contribute to an informed debate on the relative effectiveness and efficiency of different approaches to housing policy.

It is also unclear exactly what alternative is being proposed. The private development sector has been unhappy about the abolition of the Assisted Rental Program (ARP). Like the AHOP program, however, it did nothing to contribute to the long term affordability of housing in Canada. Its purpose was to stimulate construction of rental units but at great cost to the public purse. Most of the subsidy went to those who least require it -- the developers and investors in a housing project.

For example, as part of a dispute over planning approvals, the City of Toronto was able to examine a Cadillac-Fairview ARP building at 1110 Bay Street. The City's figures indicate that the total subsidy amounts to nearly $6.3 million, with only 30% going to the renters. The other 70% goes to the developers and investors. If the building was built under the non-profit social housing program, total subsidies would have amounted to $4.2 million with all the subsidy accruing to the tenants.

4.2 Increased Housing Charge Levels: A Solution in Search of a Problem

A basic point emerges from this review of changes in the program's economic and political context -- the lack of informed public debate on the effectiveness of the social housing program or alternatives to it. The recent economic and political climate has, indeed, focused more attention on the program over the past year and a half. To date, however, there has been no corresponding increase in an understanding of how the program operates or of what it is designed to achieve. In fact, there is evidence of a great deal of misunderstanding due to incomplete and inaccurate information.

As a result, a climate of mistrust about the effectiveness of the program seems to have developed -- a climate of mistrust which did not exist in the late 1970's when the current program was developed and federal support increased. This is a very difficult problem to deal with. The question is: How much of the problem is one of substance versus one of image?

A problem of substance, that is, something substantially wrong with the program, can be identified and specific alternatives proposed and debated. A problem of an unjustified negative image is much more difficult to address. Furthermore, critical problems could be created if changes are made which are based on image-related rather than substance-related concerns.

There has been dramatic changes in the economic and political climate, but no program changes. This indicates that much of the current difficulty is likely one of image rather than substance. This is not to say that the program cannot be improved. It is rare to find any new initiative which cannot be improved based on experience gained in its implementation. The co-op program itself has undergone several such improvements since it was first introduced.

However, one element of the program, the low end of market, is being implemented differently than it had been in the recent past. Yet, the formula for determining the low end of market has not been officially changed. Housing charges in new construction co-ops are being established at substantially higher levels compared with the recent past. Section 5 documents the extent of this change.

The question, then, is on what grounds can such a change be explained and

justified? What problem is the change supposed to resolve? Because the program has not been formally changed, only informal justifications are offered. These "problems" fall into three related categories: 1) a fear that a large number of higher income households are being accommodated; 2) a belief that a greater Income Tested Subsidy pool should be created in the initial year of a co-op; 3) a decision that all rents need to be raised to stimulate private rental construction.

None of these pretexts justify increasing the initial housing charges in new co-ops. This change in practice represents either: 1) a response to problems which do not exist; or 2) an unsatisfactory response, if, in fact, the problems do exist. In any case, the arbitrary increase in housing charge levels has the potential of creating a very severe problem for the future viability of the program's overall objectives.

A) Possible Problem 1: Income Mix

If the problem is defined as one of income mix, that is, whether the number of low and moderate income households is being maximized, then the problem's extent and the appropriate solutions must be determined. Questions about income mix, however, remain largely at the level of conjecture, potentially problems of image rather than substance. Criticisms of the program relating to income mix have not been verified by reliable data.

The concern over who benefits from federal housing assistance can only be answered by means of an objective, detailed survey of the households currently being served. Such a survey has recently been commissioned by CMHC's national

office as part of a general review of the entire social housing program. In the meantime, increasing the low end of market housing charges only helps produce a self-fulfilling prophecy. The higher housing charges will require higher incomes in the non-rent supplemented units.

B) Possible Problem 2: The Income Tested Subsidy Pool

If the problem is being defined as one of the size of the Income Tested Subsidy pool, then questions about the objectives of the ITS pool must be considered. As explained earlier, the size of the ITS pool is indeed determined by the level at which the initial housing charges are set. If the housing charges are higher, a greater percentage of a co-op's total federal assistance goes into the ITS pool for rent supplements than towards the mortgage assistance (the Interest Reduction Grant). However, this still means that the non-rent supplemented households must have a proportionately higher range of incomes.

When the program was developed in 1978, the low end of market formula was not intended to be a mechanism to increase the size of the rent supplement pool. It was intended to be a method by which housing charges affordable to moderate income households would be established. The method by which the size of the ITS pool would be increased, and by which households able to pay a higher housing charge would do so, was the provision for the 5% annual withdrawal of the mortgage assistance starting in the fourth year.

Increasing the level of the initial low end of market housing charges, therefore, ignores the total structure and design of the program by focusing on this one element. Together, the low end of market and the 5% withdrawal

mechanisms aim to arrive at the lowest possible income mix profile in the initial year and then to gradually increase the available rent supplement funds.

C) Possible Problem 3: General Rent Levels

A third possible explanation for increasing housing charge levels relates to the argument that all rent levels must increase substantially if the private sector is to begin investing in rental accommodation again. Because non-profit rentals represent a large percentage of current rental starts, these projects have had a high profile during the recent general slump in rental construction. It is reasonable to assume that the private sector arguments about general rent levels could be influencing federal housing officials with respect to the low end of market is co-ops. Higher non-profit rents could be seen as a small step in the "right" direction.

The issue here is that this indeed represents a very small step. All the non-profits rentals across the country, let alone the number produced annually, represent a very small percentage of the total rental stock. Using the social housing program in this way, if this is indeed what is being done, is counterproductive to the objectives of the program. It is a totally inappropriate vehicle for this.

5. The Impact of Setting Higher Initial Housing Charges

A review of recent housing charge levels approved by CMHC compared to those approved about a year earlier demonstrates the extent of the change in the practice in implementing the low end of market formula. This sections reviews

the impact this change is having and will likely have on the co-op housing program.

5.1 <u>Review of Recently Approved Housing Charges</u>

Table 4 summarizes data collected in a survey of twelve Toronto area co-ops. Six of these co-ops were approved in late 1979 and in 1980. These are compared with six of the most recently approved co-ops (October, 1981 to February, 1982). In each case three of the co-ops are suburban (Scarborough) and three urban. Equivalent one bedroom apartments and three bedroom townhouses were selected for comparison.

The survey of the initial housing charges for these twelve co-ops indicates that, within a one year period, changes in CMHC's interpretation of the low end of market is resulting in an average 20% increase in housing charges. This means that the income levels of households in the non-rent supplement units of recently approved co-ops must be about 20% higher than in the co-ops approved about a year previously. Neither inflation nor capital costs, let alone the income of average Canadians, have increased by 20% during this same period.

Initial housing charges in other regions of the country where large numbers of co-op units are being built have also increased by similar levels.

data to follow

— other regions

TABLE 4

COMPARISON OF HOUSING CHARGES ESTABLISHED BY CMHC AND MINIMUM QUALIFYING INCOMES REQUIRED FOR TORONTO AREA CO-OPS IN 1979/80 AND 1981/82

DATE COMMITTED	CO-OP	# of UNITS	LEM + Annual Income Required: 1 br. Apt.	LEM + Annual Income Required: 3 br. TH.	I.T.S./ UNIT/month	I.T.S as % of MFA.
12/79	Caroline	60	$360/$17,280	$510/$24,480	$50.68	13.3%
12/79	T. C. DOUGLAS	56	$330/15,840	$480/23,040	24.55	6.6
9/80	Peter Secor	56	—	525/25,200	65.25	15.7
9/80	Neilson Creek	104	—	515/24,720	40.86	9.1
12/80	HUGH GARNER	181	385/18,400	560/26,880	15.91	3.3
12/80	CEDARBROOK PARK	42	—	540/25,920	53.06	9.4
	AVERAGE		$358/$17,184	$522/$25,056	$41.72	9.6%
10/81	WM. J. BEGGS	75	—	$670/$32,160	102.68	10.0
10/81	FRANK FAIRCHILD	65	—	620/29,760	74.96	7.5
12/81	WINDMILL LINE	206	475/22,800	700/33,600	113.50	17.5
12/81	CONSTANCE HAMILTON	36	415/19,920	580/27,840	55.38	8.9
12/81	LOTUS	80	504/24,152	693/33,264	126.28	17.6
2/82	ELOHIM	94	—	665/31,920	106.48	13.4
	AVERAGE		$465/$22,320	$655/$31,440	$96.55	12.5%
1979/80 COMPARED TO LATE 1981			+ 23%	+ 20%	+ 57%	+ 23%

This practice of imposing higher initial housing charge levels is forcing co-ops into accommodating a higher income range in the non-rent supplemented units. If we look at the minimum qualifying incomes in the twelve Toronto co-ops in Table 4, for example, it is clear that many households whose gross income falls below extremely low levels, which would qualify them for rent supplements, and the minimum qualifying levels for the non-rent supplemented units, will be excluded from co-ops.

5.2 The Size and Distribution of the Federal Rent Supplement Pool

One possible justification for raising the initial housing charge levels might be the fact that this creates a larger pool of federal rent supplement (ITS) funds. This means that households with higher incomes are forced to spend more in order to increase the size of the rent ITS pool. This would enable co-ops to provide additional assistance to lower income households.

As the last column in on Table 4 indicates, the practice of increasing housing charge levels has indeed resulted in a doubling, on the average, of the size of the Income Tested Subsidy pool. The 1979-80 co-ops average close to a 10% subsidy pool in their initial three years, while the most recent six co-ops averaged a little over 20%. This produces a greater subsidy pool at the expense of forcing up the income range required for the non-rent supplemented units, which constitute the majority of the units in a co-op.

This problem raises the question of how the federal rent supplement funds ought to be divided. On one extreme they could be divided equally among all units, lowering the general housing charge level and making the units available to

a proportionately lower income range of households. On the other extreme, they could be divided among a few very low income households.

The practice in most parts of the country seems to be one of concentrating the federal rent supplement funds on a small percentage of relatively low income households, usually 15% to 25%. This is done for four reasons:

- to create an income mix within the co-op and avoid a homogeneous population;
- to provide the rent supplements primarily to those who have the fewest options (i.e., the extremely poor);
- to avoid placing too high a percentage of households on income tested subsidies because this eliminates the economic incentive in these units to keep costs down (since their housing charges are independent of the actual cost of managing and maintaining the co-op); and
- to minimize the amount of the administrative paperwork involved in implementing the rent supplement program.

If federal rent supplement funds were to be distributed relatively equally the purpose of having the Income Tested Subsidy pool would be defeated. The same end can be achieved by lowering the initial housing charges and abolishing the ITS pool. This would save a lot of paperwork on the administration of the income tested subsidies. ~~He~~ It would also restore the economic incentive to control costs.

Distributing federal rent supplement funds among most of the units, however, eliminates the possiblity of achieving other desirable social objectives. The potential to create a broad income mix is eliminated, as well as the possibility of assisting extremely low income households, such as single parent families on social assistance.

Table 5 provides an example of the way in which housing charges are related to the size of the income tested subsidy pool. A recently completed co-op, Innisfree East in Scarborough, is used as an example. As the initial housing charge increases from \$550 to \$650, the income required in non-rent supplemented units increases as does the size of the ITS pool. The \$550 per month housing charge (Option 1) requires a gross income of about \$26,000 to qualify but does not produce very much of an ITS pool. At the other extreme (Option 5), a housing charge of \$650 requires an income of about \$31,000 and the remaining 30% averaging about \$15,000. If housing charges were even higher, such as \$700 or \$750 per month, the gap, of course grows larger. Such a co-op would house essentially two income groups.

The Innisfree East Co-op received its commitment from CMHC in June, 1981. A housing charge of \$600 per month (including utilities) was the one established as the low end of market for the 70 three bedroom townhouses. This housing charge is considered by the co-op sector to be appropriate. It is high enough to produce some income tested subsidies and yet not too high so as to squeeze out too many moderate income households from the non-rent supplemented units. In the theoretical distribution of the ITS funds in Table 5, the assumption of \$15,000 average income produced 12 subsidized units (17%). This is in fact close to what has actually been implemented in Innisfree East.

The federal ITS pool was used to subsidize 11 households (15.7% of the co-op) at an average \$280 per month per household. The monthly rent supplements ranged from \$166 to \$460 per month for households with gross annual incomes ranging from \$6,700 to \$20,000. This level of assistance was achieved with an

ITS pool which was only 4.9% of the total federal assistance (i.e., the MFA). As Table 4 indicates, most co-ops have a higher percentage of ITS funds than Innisfree East.

Innisfree East also achieved a reasonably good income mix. This was attained, however, at the expense of a majority of the households spending more than 25% of their gross annual incomes on the housing charge. Out of the total number of non-rent supplemented units, 60% are paying between 26% and 33% of their incomes on the $600 per month housing charge. That is, they have incomes less than 28,800, ranging from $21,600 up to $28,800. The other 40% have incomes averaging slightly above $28,800 and spend an average of 20% of their incomes on the housing charge. Thus, a rather broad income mix has been achieved.

It has been achieved, however, at some risk. Almost all the non-rent supplemented households have two incomes. If one of these incomes is lost for what ever reason, it is unlikely the remaining income would be sufficient to continue paying the housing charges. In an extreme case, an AHOP scenario could come to pass in such co-ops. The economic viability of such co-ops, where most households depend on two income and pay more than 25% on shelter, could be threatened if these incomes do no at least keep up with inflation. It would be a further irony if such households in financial difficulty had to leave co-ops, i.e., leave assisted housing, because their incomes were too low and all the rent supplement funds were already being used. Where would they go?

The point here is that the initial housing charge levels are extremely important, not only to the income mix of the co-op but also to the long term

TABLE 5

IMPACT OF DIFFERENT HOUSING CHARGE LEVELS ON INCOME REQUIRED AND SUBSIDY POOL GENERATED

Example: Innisfree East Co-op, Scarborough; 70 3-bedroom townhouses; Expected completion 4/82.

From 301 Form: Total revenue required annually, $1,290,469
Maximum Federal Assistance (MFA), 826,959

	#1	#2	#3	#4	#5
1. Housing Charge / month	$ 550	575	600	625	650
2. Family Income Required	26,400	27,600	28,800	30,000	31,200
3. Annual Revenue for Co-op	462,000	483,000	504,000	525,000	546,000
4. Required Assistance: I.R.G.	828,469	807,469	786,469	765,469	744,469
5. Surplus: I.T.S. Pool	1,510	19,490	40,490	61,490	82,490
6. I.T.S. Pool as % of M.F.A.	0.2 %	2.4 %	4.9 %	7.4 %	10.0 %
Distribution of ITS funds					
7. Assume $15,000 Income: Housing Charge	$ 312	$ 312	$ 312	$ 312	$ 312
8. Income Tested Subsidy Required: monthly	238	268	288	313	338
annually	2 856	3,156	3,456	3,756	4,056
9. Units Subsidized: #	0.5	6.2	11.7	16.4	20.5
%	—	9 %	17 %	23 %	29 %
10. Units Not Subsidized: #	69.5	63.8	58.3	53.6	49.5
%	99 %	91 %	83 %	77 %	71 %

viability of the co-op. In attempting to reach as low an income range as possible some risks have to be taken by assuming that people can afford to spend about 30% of their income or shelter. It is because of this consideration that the 5% annual withdrawal of the Interest Reduction Grant does not begin until the fourth year. This gives the co-op three years to attempt to successfully institutionalize management efficiencies and economies in order to cope with the automatic 5% annual increases on the mortgage principal and interest.

It could still be argued, perhaps, that with a more substantial ITS pool, even at the expense of the resulting higher housing charges, a good income mix can still be achieved. To examine this possibility we can look at the co-op in Table 4 which has one of the highest percentage of ITS funds: the 206 unit Windmill Line Co-op in Toronto's St. Lawrence Neighbourhood.

Windmill Line was approved in December, 1981. It has an average of $113.50 per month per unit federal rent supplement pool compared to Innisfree East's $48.20 per unit. However, this means that a three bedroom unit in Windmill Line on a non-rent supplemented basis requires an income of about $33,000. Even though this is projected into the mid-1983 completion date, it is still relatively high by any standards.

Because Windmill Line is only now starting construction, member selection has not begun and there is no determination yet as to exactly how the rent supplement funds will be distributed. It is possible, however, to compare another aspect of the problem created by high initial housing charges. This is the relative extent to which an economic incentive to participate in the self-management of the co-op is maintained.

As already noted, households on rent supplements have little direct economic incentive to help keep operating costs down. Their housing charges are independendent of the actual, non-rent supplemented housing charges of the co-op. With higher housing charges in the non-rent supplemented units, however, the economic incentive is also diminished ~~as~~ if the housing charge approaches or surpasses equivalent rents available elsewhere in the vicinity of a particular co-op. The Maximum Unit Prices under which co-ops are built are designed to ensure that a modest standard of housing is built. These high housing charges relative to equivalent options can threaten the stability and viability of a co-op. That is, the economic incentive in the non-rent supplemented units also begins to diminish just as it has in the rent supplemented units.

Table 6 indicates that Windmill Line ~~may face~~ (has the potential of facing) such a problem. The Table compares housing charges in three neighbouring co-ops and two municipal non-profit rentals which are virtually adjacent to Windmill Line in St. Lawrence. Projecting the rents to mid-1983, Windmill Line will be about 25% more expensive than the existing co-ops and about 10% to 15% more expensive than the municipal non-profit rentals. The latter is especially significant because in municipal non-profit rentals there is no requirement to participate on a voluntary basis in the management of the project. The units are also very similar in terms of amenity standards, since they are built under virtually the same funding formula. If it weren't for the very tight rental market in Toronto and the ~~desirable~~ central location of the Windmill Line Co-op, the housing charge levels could prove to be very problematic.

These examples illustrate the problems of the low end of market

TABLE 6

COMPARISON OF HOUSING CHARGES AND MINIMUM QUALIFYING INCOMES FOR FOUR CO-OPS AND TWO CITYHOME PROJECTS IN TORONTO'S ST. LAWRENCE NEIGHBOURHOOD

Three Existing Co-ops (as of 2/82):

	J.S. WOODSWORTH	D B ARCHER	CATHEDRAL COURT
1 br. Apt.	$313 / $15,024*	$315 / $15,120	$313 / $15,024
2 br Apt	380 / $18,240	385 / 18,480	376 / 18,048
3 br TH.	479 / 22,992	480 / 23,040	485 / 23,280

New Co-op Approved 12/81 Compared to Average of Existing Co-ops, Projected to Mid-1983:

	NEW CO-OP: WINDMILL LINE	ADD 12% TO AVG. OF 3 EXISTING CO-OPS	WINDMILL LINE COMPARED TO EXISTING
1 br. Apt.	$475 / $22,800	$350 / $16,800	+ 26 %
2 br. Apt.	566 / 27,168	425 / 20,400	+ 25 %
3 br. TH.	700 / 33,600	540 / 25,920	+ 23 %

CITYHOME PROJECTS:

	CROMBIE PARK	176 ESPLANADE	ADD 12% TO AVERAGE	WINDMILL LINE COMPARED TO CITY HOME
1 br Apt.	$362 / $17,376	$385 / $18,480	$420 / $20,160	+12 %
2 br. Apt.	410 / 19,680	— —	460 / 22,080	+19 %
3 br TH.	538 / 25,824	$600 / $28,000	640 / 30,720	+9 %

* MINIMUM QUALIFYING INCOME FOR NON-RENT SUPPLEMENTED UNITS ASSUMING 25% OF ANNUAL GROSS INCOME SPENT ON SHELTER.

D. HULCHANSKI
2/82

mechanism for establishing initial housing charges. The very fact that an administrative decision can be made to increase housing charge levels without any change in official administrative rules to justify that decision, means that this can be an extremely arbitrary process. It is difficult to find any rationale within the "market" which led to this dramatic increase in initial housing charges since mid-1981.

This change can only be interpreted, therefore, as an ad hoc reaction to political pressures and to criticism of the program -- the "image" problem outlined earlier, rather than any substantive problem. Furthermore, this move is completely illogical in view of the increasingly desperate situation many median income households, especially larger families, face in the current housing situation. Increasing initial housing charges squeezes this group out of assisted housing. In cases where the low end of market mechanism can be determined and applied in a relatively objective manner within a particular neighbourhood, is it appropriate that housing charges be set at extremely high levels because that particular neighbourhood happens to be a high rent area?

The social housing program has the potentially positive side effect of maintaining some degree of social mix within a neighbourhood by introducing modestly priced housing. Applying higher housing charges negates this side effect as well as squeezing out a range of modest income households.

This analysis clearly indicates that determining initial housing charges by a blended method must be reconsidered. This method must reflect a number of variables, in particular the establishment of as modest an income range as possible. The fear that large numbers of higher income households would take

advantage of such a situation can be addressed by the member selection process in allocating units in new co-ops.